

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

GUYANA

**STRENGTHENING THE PUBLIC SECTOR INVESTMENT
MANAGEMENT SYSTEM**

(TC-02-01-04-5)

PLAN OF OPERATIONS

This document was prepared by the project team consisting of: Gonzalo Afcha (RE3/SC3), Project Team Leader; Michael Baptiste (COF/CTT); Fernando Cuenin (RE3/SC3); Marcio Cracel (RE3/SC3); Trevor Boothe (COF/CGY); Juan Carlos Perez-Segnini (LEG); and Patricia Sadeghi (RE3/SC3).

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Annex I Logical Framework

Abbreviations

E-HPIC	Enhanced HPIC
EPA	Environmental Protection Agency
HIPC	Highly Indebted Poor Countries Initiative
PCMS	Project Cycle Management System
PCMU	Project Cycle Management Unit
PCU	Project Coordination Unit
PIMS	Public Investment Management System
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Strategy Credit
PRSP	Poverty Reduction Strategy Paper
PSIP	Public Sector Investment Program
SPS	State Planning Secretariat
IMF	International Monetary Fund
WB	World Bank

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EXECUTIVE SUMMARY

Requester:	Government of Guyana – Ministry of Finance, State Planning Secretariat (SPS)		
Executing agency:	Ministry of Finance		
Amount and source:	IDB: (FSO)	US\$1,000,000	
	Local:	<u>US\$100,000</u>	
	Total:	US\$1,100,000	
Financial terms and conditions:	Non-reimbursable		
Terms:	Execution period:	36 months	
	Disbursement period:	48 months	
Objectives:	The objective of the program is to support the Government of Guyana in its effort to strengthen and modernize its investment project management system, in order to facilitate decision-making in public investment and ensure a more efficient allocation of fiscal resources. The program will also provide financing to conduct critical preinvestment activities that result from the country’s medium-term poverty reduction strategy.		
Description:	The operation consists of two main components:		
	1. Enhancing the institutional capacity in project management (US\$548,000)		
	This component will support: (i) the design of the institutional and operational model for the project cycle management system; (ii) the adjustment of the legal framework to the new model; (iii) the development and implementation of operating procedures and methodologies for each stage of the project cycle; (iv) the design and implementation of a computerized information system; and (v) the adoption of a supporting capacity building program.		
	2. Financing of preinvestment studies (US\$362,000)		
	This component will provide the initial funding to establish a dedicated source of financing for the preinvestment work.		
Environmental/ social review:	The new regulations and procedures that will be issued with the support of this program will stipulate the obligation to undertake		

environmental impact analysis as part of the investment projects. In preparation for establishing the new regulations and operational guidelines, the executing agency will engage in discussions with the Guyana Environmental Protection Agency (EPA) and agree upon criteria and mechanism for environmental screening of investment projects.

Benefits and beneficiaries:

The program will support the Bank's lending program for Guyana and enhance the effectiveness of a substantial part of the country's Public Sector Investment Program (PSIP). The program is also expected to provide a longer-term tool for identifying priority projects. The efficiency of public investment management will be enhanced through the strengthening of institutions participating in the project cycle.

Risks:

Since the program will represent a major change in the way that investment decisions are made by the Government of Guyana, the main risk may be insufficient political commitment to undertake the regulatory and operational changes required by the operation. To mitigate this risk, the program initially will focus on the preparation and the issuance of the regulations to establish clear institutional responsibilities, as well as the basic procedures that will guide the project cycle management system.

Other risks associated to this operation are presented in the logical framework under the column of assumptions. Among them, the main risk is related to the erosion of the country's skill basis as a result of emigration. In general, the country and the donor community do not have a specific strategy to deal with this issue. The present program is not designed to solve the problem of emigration; however, by establishing permanent mechanism for project management, through systems, standard procedures, methodologies, and training, it is expected that the program will reduce the effects associated to the high personnel turn-over, thus compensating the potential impact of the above mentioned risk.

Bank's country and sector strategy:

The Bank's objective is to collaborate with Guyana to address institutional and human resource problems in order for the country to reduce its level of poverty in the medium term and achieving sustainable, equitable growth in the long term. In line with this objective, the Bank's strategy is focused on providing selective assistance in the areas of the development challenges confronting the country: achieving sustainable economic growth, improving governance and public sector efficiency, and strengthening social programs.

Coordination with other Official Development Finance Institutions	The International Monetary Fund (IMF) Poverty Reduction and Growth Facility (PRGF) program approved in September 2002, contains policy conditions related to improvement of the link between recurrent and capital costs. In addition, the World Bank (WB) under the Poverty Reduction Strategy Credit (PRSC) is supporting the establishment of a PRS Implementation Unit that will be in charge of monitoring, and periodically updating and evaluating the PRSP. By strengthening the Project Cycle Management System, the proposed operation will assist the country in complying the IMF policy conditions, and will provide better information to support an effective conduction of the monitoring and evaluating responsibilities of the PRS Implementation Unit.
Conditions precedent for the first disbursement	In addition to the conditions established in the general conditions, prior to the first disbursement, the executing agency must submit to the Bank: (i) evidence that the PCU has been established; (ii) an indicative work plan for the initial activities to be undertaken under the program; (iii) the final terms of references for contracting the international advisor, the consultant in information systems, and the consultant for the preparation of the operating guidelines for the PCMS; (iv) the proposed candidates for the positions of technical and administrative coordinators of the program; and (v) a policy letter clarifying the role /relationship between the PRSP Monitoring Unit of the Office of the President and the Project Cycle Management Unit of the SPS.
Exceptions to Bank policy:	None

I. BACKGROUND

A. Review of macroeconomic developments

- 1.1 Since 1989, successive administrations in Guyana have been implementing an economic reform program involving broad macroeconomic and structural reforms geared toward reducing the public sector deficit, dismantling extensive State control of productive activity, establishing a market-oriented economy, and fostering economic growth. The reform program had encouraging results up to 1997: the public sector deficit declined from 43% of GDP to 2%, and real growth averaged 7% from 1991 to 1997. Since 1998 this progress has been interrupted, the pace of implementing reforms has slowed, and the economy has stagnated, despite the progress achieved in addressing weaknesses in the government's macroeconomic policy framework.
- 1.2 Against this background, in 1999 Guyana became one of the first countries to qualify for assistance under the Highly Indebted Poor Countries Initiative (HIPC). Debt relief is currently being disbursed for increased expenditures in the social sectors. Following the preparation of an Interim Poverty Reductions Strategy Paper, in October 2000 Guyana was approved for further assistance under the Enhanced HIPC (E-HIPC). By March 2002, the Poverty Reduction Strategy Paper (PRSP) was finalized and officially launched by the Government. The PRSP sets out a homegrown approach to economic development and poverty reduction, and it has become the government's overall framework for coordinating its economic and social policies, as well as the support of its external partners. The PRSP contemplates a major role for capital formation, with the public sector playing the lead role in the medium term. Accordingly, the PRSP includes an annex proposing an ambitious PSIP focusing on the health, education, and housing sectors and on economic infrastructure.
- 1.3 Over the last five years, public sector investment has averaged 14% of GDP and has represented more than half of total capital formation. The PSIP was mainly oriented to social services (32%), general public services (29%), and economic infrastructure (24%). Its financing was evenly shared between domestic revenue and external sources. For the next five years, expenditure on the PSIP is projected to increase sharply from 14% of GDP to an average of about 18% of GDP. The structure of financing the investment program is also expected to change. As a result of the E-HIPC, the debt-released resources will increase the importance of the domestic finance component by an amount equivalent to 4% of GDP annually. Currently, the locally financed component for the investment program is mainly composed of rehabilitation projects and the purchase of vehicles and equipment.
- 1.4 As part of the preparatory work for this operation the Bank financed an assessment of the existing project cycle management system. This assessment shows that structured approaches to public investment decision-making are only confined to major projects being financed by external loans and grants. For the

most part, consultants do feasibility studies and related technical work undertaken for this purpose. There is no sustainable system in place to support the transfer of expertise in these areas to local personnel. On the other hand, the assessment reveals that weaknesses are evident at all stages of the project cycle for the locally component financed of the PSIP and that timely attention to capacity building and system improvement will be required to support the steady build-up of the public investment effort contemplated by the country's PRSP.

- 1.5 Consequently, as important as the targeted increases in PSIP outlays are to the recovery and poverty reduction effort, the efficiency with which the resources released by E-HIPC are utilized, the quality of investments supported, and the choice of financing arrangements are equally important. A viable project cycle management system is therefore an important element of the infrastructure needed to support the efficient allocation and management of the resources released through the E-HIPC.

B. The public sector investment management system

1. Organization structure and regulatory framework

- 1.6 The State Planning Secretariat (SPS) in the Ministry of Finance is officially responsible for coordinating all aspects of the investment program. In practice, however, information and responsibilities have been scattered throughout the public sector. There is a need to clarify the responsibilities of the respective public agencies (ministries, departments, and statutory boards) at each stage of the project cycle. Currently, projects are identified and selected by the line ministries and regions, with little prior feedback to the SPS; the Secretariat is often forced to return the regions' projects to the line ministries and demand their clearance. While it is appropriate that the primary responsibility for project identification rests with the line agencies, it is important that this process is guided by clear criteria and in line with the availability of current and future resources. Therefore, it should be the role of the SPS to provide a set of updated guidelines and basic indicators, in order for the line agencies to make rational decisions between projects or to avoid problems in counterpart funding.
- 1.7 In general, the basic legal framework and the organizational structure that is in place have the potential to support decentralized needs-identification and project implementation, particularly in the areas of education, health, and public works. However, optimization of these arrangements is being adversely affected by the system-wide deficiencies in critical areas such as the lack of documented systems and guidelines, the absences of sectoral frameworks, weaknesses in institutional capacity, shortages in human resources, and inadequacies in information technology. There is also an uneven distribution of sectoral and project planning and implementation skills and resources among the line ministries and regional executive bodies.

2. Coordination issues

- 1.8 Coordination of the public investment effort poses a particular public management challenge in Guyana in the context of the protracted weakening of the country's human resource basis, the delicate socioeconomic framework, and the range of internal and external agencies involved at each stage of the project cycle.
- 1.9 Within the public sector, effective coordination of the PSIP is constrained at the operational and policy levels. At the budget preparation stage, the information submitted by project executing agencies is insufficient to support decision-making about the viability of new proposals. Likewise, it cannot support informed decisions concerning possible duplication and the need for inter-sectoral and inter-agency coordination. Moreover, information limitations do not allow the recurrent cost implications of new project proposals to be properly factored into decision-making. At the policy level, without viable systems for macroeconomic performance monitoring and medium-term forecasting, the linkage between budgeting and economic planning is affected and timely decision-making is not possible in critical areas like coordination of fiscal and monetary policy and debt management.

3. Human resources issues

- 1.10 As is the case in the rest of the region, the public sector investment effort in Guyana continues to be challenged by skill shortages in critical areas. The problem in Guyana seems more acute as a result of a protracted period of out-migration associated with the country's recent economic and political problems. Migration continues to account for significant erosion of the country's skill basis. The project cycle management system has been particularly affected, given its very specialized nature. Anecdotal evidence suggests that this trend is accelerating. In addition, the SPS has been losing experienced staff through attrition – a trend that is expected to continue given the age profile of its current management structure.

4. Information technology systems

- 1.11 The existing computer system at the SPS is incapable of supporting the real time exchange of relevant information with the project executing agencies and the budget administration database at the Ministry of Finance. Computers are not networked. The system can only facilitate financial monitoring, as its coverage is limited to selected aspects of the financial performance of ongoing investment projects. Arrangements governing the operation of the system are too informal for a computer system that is supposed to support the management of a function as important to government as the PSIP.

5. Procedures and methodologies

- 1.12 Weaknesses are present at all stages of the existing project cycle management system, but are more critical for the preinvestment stage (a brief description can

be found in RE3/SC3 technical files). The lack of standardized systems, methodologies, and procedures for the preparation and approval of investment projects is a major institutional weakness that limits the ability of the system to support the application of consistent criteria to the allocation process. Transparency is also compromised by this weakness – an issue that assumes additional significance in the context of the range of participating agencies from the central government.

- 1.13 While the locally financed component of the PSIP is most acutely affected, the externally financed component is not without problems. The existence of what is essentially a parallel pre-investment system for this component raises a number of practical difficulties that need to be addressed. The first issue concerns the compatibility between the country strategies of the respective external agencies and the country's own development priorities. In the absence of a clear framework to identify investment priorities and rank competing proposals, the system is vulnerable to problems of duplication, coordination, and programming. The PRSP does not fully compensate for the absence of a mechanism for project prioritization, since its proposed medium-term public sector investment program is not supported by previous analysis of investment alternatives. Another concern is with the marginal involvement of local staff in the pre-investment phase of programs funded by external agencies.

C. The Bank's strategy and rationale for its participation

- 1.14 **The Bank's strategy.** The Bank's objective is to collaborate with the country to address institutional and human resource problems in order for Guyana to reduce its level of poverty in the medium term and achieve sustainable, equitable growth in the long term. In line with this objective, the Bank's strategy is focused on providing selective assistance to address the main development challenges confronting the country achieving sustainable economic growth, improving governance and public sector efficiency, and strengthening social programs. The proposed operation is one of the activities identified in the strategy to support the improvement of governance and public sector modernization. An improved public sector investment system will have the potential to contribute to raise the local capacity for project implementation, and increase the economic and social impact of public investment.
- 1.15 **Experience in other countries.** Since the late 1980s, the Bank has provided assistance to many borrowing countries in the region for the establishment and strengthening their public sector investment systems, including **Bolivia, Chile, Colombia, the Dominican Republic, Ecuador, Honduras, Nicaragua, Peru, and Venezuela**. The most successful programs have been focused on the development of standardized procedures and methodologies to enhance decision-making, the improvement of information systems, and the establishment of a centralized policy-setting function and decentralized operational approach. These programs also have addressed preinvestment programming and physical and financial monitoring of project execution. In particular, the progress of Chile and

Colombia in improving methodologies and training for project preparation and evaluation has had a major impact on the quality of public investment.

- 1.16 **Actions of other multilateral agencies.** The International Monetary Fund (IMF) Poverty Reduction and Growth Facility (PRGF) program approved in September 2002, contains policy conditions related to improvement of the link between recurrent and capital costs. In addition, the World Bank (WB) under the Poverty Reduction Strategy Credit (PRSC) is supporting the establishment of a PRS Implementation Unit that will be in charge of monitoring, and periodically updating and evaluating the PRSP. By strengthening the Project Cycle Management System, the proposed operation will assist the country in complying the IMF policy conditions, and will provide better information to support an effective conduction of the monitoring and evaluating responsibilities of the PRS Implementation Unit.

II. THE PROGRAM

A. Objective

- 2.1 The objective of the program is to support the Government of Guyana in its effort to strengthen and modernize its investment project management system, in order to facilitate decision-making in public investment and ensure a more efficient allocation of fiscal resources. The program will also provide financing to conduct critical preinvestment activities that result from the country's medium-term poverty reduction strategy.
- 2.2 Specifically, the activities in the proposed technical cooperation will help create a viable institutional framework for public investment by supporting the design, dissemination, and implementation of methodologies and policies pertaining to: (i) the role of different sector agencies involved in the public investment process; (ii) the formulation and evaluation of projects (strengthening the mechanism for the preinvestment stage); (iii) the implementation and monitoring of investment projects; (iv) the training of staff in government agencies participating in the project cycle; and (v) the establishment of a dedicated source of funding for preinvestment activities.

B. Description

- 2.3 The operation would consist of two main components: (i) enhancing institutional capacity in project management; and (ii) financing preinvestment studies.

1. Enhancing institutional capacity in project management (US\$548,000)

- 2.4 The activities under this component will support: (i) the design of the institutional and operational model for the project cycle management system; (ii) the

adjustment of the legal framework to the new model; (iii) the development and implementation of operating procedures and methodologies for each stage of the project cycle; (iv) the design and implementation of a computerized information system; and (v) the adoption of a supporting capacity building program.

- 2.5 While activities (i) through (iii) will immediately benefit all the public entities involved in the project cycle, the implementation of the computerized information system and the capacity building program will be focused on a limited number of agencies. In addition to the Project Cycle Management Unit (PCMU) of the SPS, it is contemplated that, initially, the planning units of the Ministries of Education, Public Works, and Health will participate in the program. Once the system is operational in these institutions, its implementation will be extended to other public sector institutions through specific technical cooperation programs
- 2.6 **Design of the institutional and operational model for the project management system:** The program will support the design of the institutional and operational model for the Project Cycle Management System (PCMS) and will include a detailed medium-term implementation plan. The plan will specify the necessary adjustments to the legal framework, as well as the appropriate sequence for the activities of the program. Within the first six months after the first disbursement, the SPS will submit to the Bank for approval the final design of the model and its medium-term implementation plan.
- 2.7 **Adjustment of the legal framework:** The activities in this area will support the preparation of norms and regulations to incorporate into the legal framework the provisions required for the adequate functioning of new PCMU. It is expected that the new legal framework will emphasize the definition of the role of the participating agencies in the system, and the provisions to set up the obligation to apply standardized procedures and technical methodologies.
- 2.8 **Development and implementation of operating procedures and methodologies for each stage of the project cycle:** The program will include activities to support the design and implementation of the following core technical instruments:
- i. Manuals and standardized procedures for use in project identification and formulation activities.
 - ii. General guidelines for use by the sector ministries and their units, spelling out the criteria for setting the priority of projects and facilitating the subsequent selection on the basis of the country's Poverty Reduction Strategy (including sufficient indicators for establishing a ranking within the Public Sector Investment Program).
 - iii. Specific methodologies and administrative and institutional mechanisms for programming and budgeting investments at the central and sector agencies.

- iv. Methodologies and general guidelines for undertaking technical, financial, and environmental analysis of projects.
 - v. Procedures for including information on project profiles in the investment information system.
 - vi. Methodologies to prepare a medium-term PSIP.
 - vii. Methodologies for project evaluation, including environmental impact assessment and analysis of income distribution effects.
 - viii. Procedures and methodologies to monitor physical and financial execution of public investment projects and to conduct ex post evaluation of public investment.
- 2.9 The implementation will be also supported by specific training activities (see paragraphs 2.11--2.15).
- 2.10 **Design and implementation of a computerized project cycle management information system.** The program will finance the development and implementation of a computerized information system capable of supporting real time interaction between the various public sector agencies with responsibilities for investment programming operations. The information system should also be capable of supporting decision-making at both the project preparation and implementation stages. An important feature should be its ability to share information with the existing recurrent budget preparation and management system. The system network will become an important mechanism to support the efforts to improve interagency coordination.
- 2.11 Specialized consulting services will be contracted for the design of the information system, including the technical specification of the software and the hardware to be used in developing and operating the system. In addition to considering the features described in paragraph 2.9, the integrated design should take into account the applications or subsystems for: (i) processing information related to public investment nationwide; (ii) setting up regular channels for data transmission between the SPS and the decentralized agencies; (iii) operating the applications for project identification and selection; and (iv) functioning of a module to monitor ongoing projects.
- 2.12 **Supporting capacity building program.** The introduction of new procedures and methodologies for the public sector investment system will place new demands on the capabilities of staff at the SPS, as well as the line ministries and executing agencies. In order to meet the needs of this demand, support for a capacity building program will be included.
- 2.13 The program will incorporate strategies to facilitate delivery of relevant, easily applicable skills to functionaries of the agencies involved in the investment

process. It will include on-the-job technical support to guide the implementation of the new operating guidelines, and training activities in selected areas to address the needs of the government personnel involved in the preparation and management of investment projects. In addition, the program will finance activities directed to support the improvement of the operation and management capabilities of the PCMU of the SPS and the planning units of the participating sector ministries.

2.14 The training activities will be fundamental for the PCMU, to enhanced and properly implemented, since the system will only be fully used and adhered to only if the public sector agencies have suitably trained human resources. The training will be aimed at all levels participating in the investment process: base operators, middle management, executives, and users. The training will include the following activities:

- a. Seminars to upgrade the skills of local staff involved in the preparation and evaluation of investment projects.
- b. Training for instructors specializing in the use and operation of standard formats and methodologies.
- c. Training in the use of standard formats for project preparation and evaluation (master forms, minimal profiles, and fully refined profiles).
- d. Training of system members through on-the-job instruction and courses on system operation.
- e. Special seminars to instruct senior administrative personal in the proper and effective use of the PCMU.
- f. Training for the staff of executing agencies in project administration and physical and financial monitoring.
- g. Workshops on methodologies for the preparation of a three-year PSIP.
- h. Workshops on macroeconomic forecasting techniques.
- i. Program course on public investment projects.
- j. Publication and distribution of the operating manuals and guidelines.

2.15 The content of the lectures, formal courses, and working-group meetings will be specified in a detailed training plan, whose design should be compatible with the institutional and operational model for the PCMS.

2.16 As part of the training activities, provisions will be made for “on site” training of management level officials to enable them to examine the operational aspects of public investment system in other countries of the region.

2. Financing preinvestment studies (US\$362,000)

- 2.17 Under this component, the program will provide the initial funding for the establishment of a dedicated source of financing the preinvestment work. With such a source of funding in place, project preparation work could be outsourced for the development of a viable pipeline of investment projects in support of the steady build-up of capital expenditure contemplated by the PRSP. To facilitate a progressive transfer of project preparation skills to the personnel of the public agencies, it is envisioned that the consultants would employ an on-the-job training approach during the preparation of preinvestment studies.
- 2.18 The operation of this financing mechanism would follow a revolving fund arrangement. Once a project is approved for implementation and an expenditure provision is included in the budget, the resources provided by the fund to finance a preinvestment study should be reimbursed to the fund by the Treasury from the first disbursement that supports the execution of the project. In the event that the project is not approved for implementation, the cost of the preinvestment study should be reimbursed to the fund by the agency that requested the funds for the study. Alternatively, by using HIPC-released resources, the government could top up this fund on an annual basis with the aim of maintaining the resources at its original level; or it could keep a minimum of 1% of annual capital expenditure available at all times for funding preinvestment and project preparation work using this mechanism.
- 2.19 The fund will be placed at the SPS, and its administration will follow the principles described in paragraph 2.17. The Program's Management Committee will have responsibility for the approval or rejection of applications for financing studies with the fund's resources. This Committee will be composed of the head of the PCMU, and the heads of the planning units of the sector ministries assisted under this operation.
- 2.20 As a first step for the implementation of this component, it is contemplated that a study will be undertaken to specify the operational arrangements of the preinvestment fund. Based on the results and recommendations of the study, the SPS will prepare a proposal for the Operating Regulations for the fund's resources. The SPS will submit the proposed regulations to the Bank for approval within six months of the first disbursement. The use of the fund's resources will be conditioned to the Bank's approval of the Operating Regulations.
- 2.21 The Operating Regulations shall establish the requirements for the use of the resources of the Fund regarding: (i) the nature of the studies to be financed and their eligibility; (ii) the criteria for the selection of general, pre-feasibility, feasibility, and final design studies; (iii) the required environmental and distributional impact analysis; (iv) the basic supporting information to be provided by the participating entity; and (v) the criteria for selecting and contracting consultancy services.

- 2.22 It is expected that the financing of consulting services to run studies will take place at the eligible institutions where the instruments of the Project Cycle Management System (PCMS) are either in use or being introduced. Through this conditionality, the preinvestment resources may become an incentive for applying the standardized procedures, norms, and methodologies developed by the first component of the program.
- 2.23 With the assistance of the Project Coordination Unit (PCU) that will be set up under this operation, the planning units at the ministries will be responsible for the preparation of the studies' profiles and the supervision of the performance of the studies. In the case of those public sector agencies that face severe institutional constraints or when the nature of the studies require highly specialized skills, the resources of this component may also be used to finance short-term consulting services contracts to support the preparation of terms of references and the supervision of the studies. While this mechanism will address the lack of qualified human resources in some agencies, its use will be conditioned on the establishment of an administrative capacity to handle and monitor the consulting contracts.

III. EXECUTION

A. Execution of the operation

- 3.1 The project execution period will be 36 months and the disbursement period will be 48 months. Responsibility for the operation will be borne by the SPS of the Ministry of Finance, through its PCMU
- 3.2 The SPS is the Government of the Guyana's main policy adviser and focal point for matters relating to economic and development planning and associated external resource mobilization. As the main repository of all data relating to the planning function, in the discharge of its responsibility the SPS, through its PCMU, must: (i) appraise the financial and economic potential of individual project submissions and make recommendations to the Minister of Finance and Cabinet; (ii) negotiate loan and grant arrangements and maintain continuous contact with international aid and lending agencies; (iii) monitor the performance of projects/programs being implemented by government ministries and other public sector entities; and (iv) monitor the quarterly and annual performance of the domestic economy and prepare regular reports for submission to Cabinet and external development agencies.
- 3.3 For the execution of the activities under this operation the SPS will act through the PCMU. This unit will be provided with appropriate regulations and technical resources to coordinate and extend adequate support to the entities responsible for the programming and budgeting of Guyana's public sector investments. During

the period of execution of the operation described in this plan of operations, the PCMU will be assisted by a PCU.

- 3.4 The PCU will be set up to assist the PCMU in designing, developing, and implementing the project by coordinating and supervising the technical and administrative activities in the various phases of the operation. The project coordination unit will operate under the supervision of the Head of the PCMU. The PCU will be integrated by a technical coordinator and an administrative coordinator. The administrative coordinator, in consultation with the Bank and in accordance with its procedures, will be responsible for contracts, payments, and other administrative actions relating to the consultancies, the purchase of equipment, and other requirements of the operation.
- 3.5 The technical coordination of the project will be conducted by an international advisor with the responsibility of putting together the teams of consultants and establishing the work schedules, guiding the consultant's activities, and supervising their work, including submitting progress reports as scheduled. The international advisor will be assisted by a staff member of the PCMU. This public official will take the technical coordination responsibilities once the contract of the advisor is expired. The international advisor and the administrative coordinator will be appointed by common agreement among the Ministry of Finance and the Bank, in accordance with the Bank's selection procedures.
- 3.6 A Management Committee will be organized with the participation of the head of the PCMU of the SPS and the heads of the planning units of the sector ministries assisted under this operation. This committee will meet regularly to set general and technical guidelines for the operation, examine the results achieved, and define the work program for the next fiscal year.

B. Responsibilities of the project coordination unit

- 3.7 The PCMU, through its PCU will be responsible for: (i) maintaining adequate financial, accounting and internal control systems that allow the identification of the sources and uses of project funds, provides documentation to verify transactions and the timely preparation of financial statements and other financial reports; (ii) submitting disbursement requests to the Bank and the corresponding justification of expenditures; (ii) maintaining an adequate disbursements support documentation filing system; and (iii) preparing and submitting to the Bank the annual financial statements regarding project's expenses, and the semi-annual Revolving Fund Status Reports.

C. Required inputs

- 3.8 **Consulting services:** The following consultancies services will be required: (i) an international resident advisor, for 12 months; (ii) an international consultant in information systems, for four months; (iii) a consultant in charge of the preparation of the operating guidelines for the PCMU, for two months; (iv) a

- consultant to assist in the design of the capacity building program, for 1.5 months; (v) a consultant to assist in the preparation of the operating regulations of the preinvestment fund, for 1.5 months. The terms of references for the resident advisor, the consultant in information systems, and the consultant for the preparation of the operating guidelines for the PCMS can be found in RE3/SC3 technical files. In addition, the services of local and international consultants will be required for a period of up to 12 man/months and five man/months, respectively. These consultants must have experience in investment programs, budget formulation, project evaluation, and project investment financing.
- 3.9 The main function of the consultants will be to develop and implement the new systems and procedures in the PCMU and in the sector planning bodies of the participating entities. In general, it is expected that international consultants will assist in the design of the products, while the implementation effort will be undertaken by the public entities with the support of local consultants, under close supervision and coordination of the international resident advisor. As part of his/her responsibilities, the resident advisor will train a qualified public official, who will assume the technical coordination responsibilities of the program, once the international advisor's contract expires.
- 3.10 **Equipment:** The PCU will purchase the computer equipment for the information system using funds from the Bank's financing and following the Bank's regulations. The equipment will be determined in accordance with the terms of reference of the consultant in information systems. Such equipment has been estimated to cost up to US\$130,000. The information system consultant, in conjunction with the PCU, will prepare a budget reflecting the equipment requirements for the information and computer systems. This proposal is to be submitted for consideration by the Bank within six months after the first disbursement. Other equipment considered necessary during the program execution may be charged to this item, as agreed by the executing unit and the SPS, after consultation with the Bank.

D. Cost and financing

- 3.11 The cost of the program has been estimated at US\$1.1 million. The Bank would finance up to US\$1 million of the costs on a nonreimbursable basis from the net income of the Fund of Special Operations (FSO). The Government of Guyana will contribute the equivalent of US\$100,000 as counterpart funds. A detailed budget can be found in RE3/SC3 technical files.

Table 3.1. Proposed Budget (US\$)

	IDB	GOG	TOTAL
1. Project administration	80,000	20,000	100,000
2. Enhancing institutional capacity	498,000	50,000	548,000
Project management			
Consulting	288,000	10,000	298,000
Training	100,000	20,000	120,000
Equipment and software	110,000	20,000	130,000
3. Financing preinvestment studies	337,000	25,000	362,000
Consulting	22,000		22,000
Preinvestment fund	300,000	25,000	325,000
Equipment	15,000		15,000
4. Evaluation	20,000		20,000
5. Audit	15,000		15,000
6. Contingencies	50,000	5,000	55,000
TOTAL	1,000,000	100,000	1,100,000

E. Procurement of goods and services

- 3.12 The proposed program does not call for the construction of any works. Goods will be procured and contracts for services (including consulting) awarded according to the Bank's procedures. No goods or services in amounts greater than US\$250,000 is to be procured. If this becomes necessary, an international competitive bidding will be required. The consultants required under the program will be hired and the equipment will be procured in accordance with the Bank's procedures.
- 3.13 When necessary, the PCU in consultation with the Bank, may approve short-term consulting services to provide support for the ministerial planning units participating in the program, also following the Bank's standard procedures. The participating institution will provide the following basic information: (i) a detailed description for the work to be done; (ii) the schedule of activities to be carried out by the consultants; (iii) the dates set for initiation and completion of the work; (iv) the number and type of professionals required; (v) the number and content of the reports that the consultant will be required to submit to the beneficiary institution; and (vi) the format in which the final report is to be submitted.
- 3.14 Unless expressly authorized by the Bank, the program resources may not be used to finance contracts for one particular short-term individual consultant if the total cost of such contract exceeds the equivalent of US\$40,000 in a given year.

F. Revolving fund

- 3.15 A revolving fund will be established, equivalent to 10% of the Bank's contribution. The PCU will open separate commercial bank accounts for the management of the Bank's grant and the local counterpart funds. The PCU will prepare and submit to the Bank, within a period of sixty (60) days after the

closing of each semester, a semi-annual report showing the status of the revolving fund as of June 30th and December 31st.

G. Conditions precedent for the first disbursement

- 3.16 In addition to the conditions established in the general conditions, prior to the first disbursement, the executing agency must submit to the Bank: (i) evidence that the PCU has been established; (ii) an indicative work plan for the initial activities to be undertaken under the program; (iii) the final terms of references for contracting the international advisor, the consultant in information systems, and the consultant for the preparation of the operating guidelines for the PCMS; (iv) the proposed candidates for the positions of technical and administrative coordinators of the program; and (v) a policy letter clarifying the role /relationship between the PRSP Monitoring Unit of the Office of the President and the Project Cycle Management Unit of the SPS.

H. Environmental and social aspects

- 3.17 The new regulations and procedures that will be issued with the support of this program will stipulate the obligation to undertake environmental impact analysis as part of the investment projects. In addition, all preinvestment studies to be financed under this program will include the obligation of the beneficiary entity to comply with the country's legal provisions of environmental protection and the Bank's policies regarding this matter.
- 3.18 As a previous step for establishing the new regulations and operational guidelines, the executing agency will undertake discussions with the Guyana EPA and agree upon criteria and mechanism for environmental screening of investment projects.

I. Supervision

- 3.19 Overall supervision of the program execution will be undertaken by the Bank through its Country Office in Guyana, with the assistance of the project team when necessary. The SPS of the Ministry of Finance will have primary responsibility for technical supervision.

J. Reports

- 3.20 As part of the monitoring of the operation, the following reports will be submitted by the Ministry of Finance to the Bank. The Ministry of Finance will be assisted by the PCU in the preparation of the reports.

1. Technical reports

- a. An initial report, within the first six months of the effective date of agreement, containing at least: (i) the general plan for implementation, and a detailed one year schedule of activities to be carried out; (ii) the definite

terms of reference of the consultants; and (iii) a proposal for hardware and software procurement.

- b. Within six months of the effective date of agreement, the Operating Regulations of the preinvestment fund.
- c. Within nine months of the effective date of agreement, a proposal for the general training plan. A detailed schedule for training activities will be submitted to the Bank each year for approval, thereafter.
- d. Semiannual progress reports, to be submitted within 30 days of the end of each six-month period, describing the activities carried out under the program. These reports shall evaluate the activities completed, describe the work planned for the following six months, and include recommendations on courses of action to be taken or other pertinent measures. These reports will include a summary of the results of the meetings held by the Programming and Evaluation Committee.
- e. Two years after the effective date of the agreement, the executing unit will submit, to the satisfaction of the Bank, a mid-term evaluation of the program indicating the status of program execution, the progress achieved, and any measures or adjustments necessary to ensure fulfillment of the program objectives.
- f. A final report, to be presented within 60 days of completion of the project, summarizing the actual achievements with respect to the planned objectives.

2. Financial reports

- g. The PCU will submit to the Bank, within ninety (90) days after the closing date of each fiscal year, and during the execution period of the project, audited financial statements on the use of the program's resources. The annual financial statements should be audited by a firm of independent public accountants, acceptable to the Bank.
- h. The cost of the audit has been included as part of the financing. Audits will be performed under the terms of reference previously approved by the Bank. The audit firm will be contracted for the whole project execution period, subject to a contractual termination clause in case of inadequate performance. The audit firm will be selected in accordance with the Bank's audit bidding procedures.

K. Expected results

- 3.21 The Logical Framework (Annex I) includes the expected results and the indicators to be used to verify the fulfillment of the program objectives.

IV. BENEFITS AND RISKS

- 4.1 The program will support the Bank's lending program for Guyana and enhance the effectiveness of a substantial part of the country's PSIP. The program is also expected to provide a longer-term tool for identifying priority projects. The efficiency of public investment management will be enhanced through the strengthening of institutions participating in the project cycle. Systematic establishment of planning tools and the introduction of more comprehensive project analysis methods will help rationalize the investment process and make it more independent of short-term political decisions. In addition, the establishment of a dedicated source for financing the preinvestment work would support a constant flow of properly developed project ideas through the approval system, contributing to an improved overall quality of the PSIP. This arrangement could also contribute to filling project preparation skill gaps and allowing executing agency personnel to focus on the overall quality of their respective sectoral portfolios. These activities, taken together, are expected to contribute to directing scarce resources to projects with a high rate of return and making economic and social development efforts more effective.
- 4.2 Since the program would represent a major change in the way that investment decisions are made by the Government of Guyana, the main risk may be the insufficient political commitment to undertake the regulatory and operational changes required by the operation. To partially mitigate this risk, the program initially will focus on the preparation and issuance of the regulations to establish clear institutional responsibilities, as well as the basic procedures that will guide the project cycle management system. The issuance of these regulations would be a precondition for the disbursement of funds to finance the other activities contemplated in the program.
- 4.3 Other risks associated to this operation are presented in the logical framework under the column of assumptions. Among them, the main risks is related to the erosion of the country's skill basis as a result of emigration. In general, the country and the donor community do not have a specific strategy to deal with this issue. The present program is not designed to solve the problem of emigration, however, by establishing permanent mechanism for project management, through systems, standard procedures, methodologies, and training, it is expected that the program will reduce the effects associated to the high personnel turn-over, thus compensating the potential impact of the above mentioned risk.

V. EVALUATION

- 5.1 This operation will be evaluated on the basis of the achievement of its objectives and the performance of the activities described in Chapter II. Problems encountered will also be taken into account, as well as measures to address them. The following evaluations will be performed with the participation of technical staff from the Government of Guyana and the Bank. Program resources have been allocated to support the evaluations.
- a. A **mid-term evaluation** 18 months after the first disbursement.
 - b. A **final evaluation**. Within six months of completion of the corresponding activities, a technical evaluation will be undertaken, containing a summary of activities carried out, with an indication of their results and how they relate to the proposed objectives.
 - c. An **ex post evaluation**. Within one year of completion of the project, the government and the Bank will conduct an independent ex post evaluation assessing the work undertaken, and the effectiveness of the results regarding the systematic management of the project cycle and the improvement of the country's PSIP. It will further verify the continuity and sustainability of the program activities, regarding the application of standardized procedures and methodologies, as well as the performance of preinvestment studies.

VI. ISSUES

- 6.1 The proposed operation is aimed to establish the basis of a viable institutional framework for the public sector investment system. As such, this effort should be considered the first step toward the achievement of an improved and well functioning investment system in Guyana.
- 6.2 The activities related to strengthening the local capacity to monitor macroeconomic performance and develop medium-term expenditure planning scenarios in support of the PSIP programming, are considered under a new technical cooperation operation that incorporates the public sector financial management issues.

**STRENGTHENING THE PUBLIC SECTOR INVESTMENT MANAGEMENT SYSTEM
(TC-0201045)**

LOGICAL FRAMEWORK

Narrative Summary	Indicators	Means of Verification	Assumptions
GOAL			
To contribute to a more efficient allocation of fiscal resources in public investment.	<p>One year after the end of the program execution, the public sector investment program includes projects with higher levels of efficiency as compare to the base year.</p> <p>All public sector investment projects, including those that are <i>financed by external funds</i>, are being selected and ranked according to reliable criteria and a standarized methodology.</p>	<p>Technical report on the Three year PSIP.</p> <p>Ex-post evaluation of the program.</p>	<ul style="list-style-type: none"> Continuing political support to the reform. Criteria for project selection and ranking remain compatible with the country's development strategy. Continuing availability of public funds to undertake preinvestment studies (including the appropriate functioning of the replenishment mechanism of the revolving fund).
PURPOSE			
Improved decision-making process for domestically financed public investment.	<p>By the end of the program execution:</p> <p><i>All (100%) of the locally financed projects</i> in the PSIP have been identified, ranked and selected</p>	Report on the final evaluation of the program.	<ul style="list-style-type: none"> Experienced and trained staff remain in the public sector. Procedures for project selection being applied for externally financed projects.

	<p>according to new procedures and methodologies.</p> <p>All of the project being implemented are monitored on a regular basis according to the new procedures and methodologies.</p>		
COMPONENTS			
1. Institutional capacity on project management strengthened.	<p>1.1 By the end of the first year of the program, the norms and regulations issued by the GOG will incorporate the changes in the legal framework necessary for the implementation of the new project cycle management system.(clear role of each public entity in the public investment system, obligation to follow standardized procedures and application of methodologies).</p> <p>1.2 By the end of the third year, the computerized information system will be operating and the participating agencies will have full on-line access to the data base and the computerized applications required by the new investment management system.</p> <p>1.3 By the end of the third year</p>	<p>1.1.1 Publications of the new norms and regulations.</p> <p>1.2.1 Technical assessment on the operation of the information system.</p> <p>1.3.1 Final assessment of the</p>	<ul style="list-style-type: none"> The investment component of the approved budget supports the ranking and selection of the new PSIP.

2. Preinvestment studies financed	<p>100% of the personnel in charge of the investment activities in the participating institutions, will be trained on: (a) the operation of the new procedures, (b) the information system, and (c) the application of technical methodologies.</p> <p>2.1 By the end of the program execution, a revolving fund is operating based on: (a) a legal framework to support its establishment; (b) well defined operational guidelines; (c) a specific mechanism to maintain the resources of the fund at its original level.</p> <p>2.2 By the end of the program execution, at least twelve preinvestment studies have been financed with resources of the fund.</p>	<p>capacity building program.</p> <p>2.1.1 Assessment of the operational and legal issues of the revolving fund.</p> <p>2.2.1 Final evaluations of the program.</p>	
ACTIVITIES			
	SEE ANNEX II		<ul style="list-style-type: none"> The GOG undertakes the regulatory and operational changes required by the operation.

			<ul style="list-style-type: none">• Commitment of central government to reorganize the investment management cycle.• Public servants accept the adoption of new procedures and methodologies• Public servants accept the adoption of the new information system, as a tool to support of daily operation on project management.• Assignment of the appropriated personnel to attend to training events.• Political support for the creation and operation of the revolving fund.
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EXPECTED OUTPUTS BY COMPONENT STRENGTHENING THE PUBLIC SECTOR INVESTMENT MANAGEMENT SYSTEM	
1.1.1 Components	1.1.2 Outputs
1. Institutional strengthening	<p>Document describing the concepts and guidelines of the institutional and operational model</p> <p>Documents defining the proposed changes in the legal framework.</p> <p>Norms and regulations issued by the GOG incorporating the proposed changes. (Verification that the role of each public entity in the public investment system is clearly defined).</p> <p>New procedures and methodologies developed for each stage of the project cycle</p> <p>Technical documents supporting the design of the procedures and methodologies.</p> <p>Regulations that formally incorporate the new procedures and methodologies for the management of the project cycle.</p> <p>Desk manuals for each stage of the project cycle</p> <p>The three-year Public Sector Investment Program (PSIP) is prepared following standard methodologies.</p> <p>The computerized information system is operating at the SPS and the participating agencies.</p> <p>The staff of the SPS and the planning units of the participating agencies are trained on the operation of the new procedures, the information system, and the application of technical methodologies.</p>
2.. Financing preinvestment studies	<p>The legal framework to support the establishment of the revolving fund for preinvestment has been issued. The fund functions according to well defined operational guidelines. There is a specific mechanism to maintain the resources of the fund at its original level.</p> <p>At least 12 preinvestment studies are financed with resources of the fund.</p>